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SUBJECT: Honduran Econ Highlights: February 2004

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----- Finally, an IMF Agreement -----

1. (U) On February 2, the GOH signed a Letter of Intent for a three-year Poverty Reduction and Growth Facility (PRGF), which was then approved by the IMF Board in Washington on February 18. This marks the end of two long years of negotiations between the IMF and the Maduro government, but the result is a macroeconomic plan that establishes some control over public sector salaries and places the GOH on a more secure financial footing.

2. (U) The program was premised on GOH completion of four "prior actions": the adoption of a law to control public sector salaries, a package of expenditure cuts and revenue enhancements, a 2004 budget consistent with expenditure targets, and an adjustment to the Poverty Reduction Strategy. All four moves were completed by early January 2004 (see Ref A for a complete account of these measures).

3. (U) After one year of compliance with the program and commitments in the GOH's Poverty Reduction Strategy, Honduras will be eligible for reaching the completion point under the HIPC initiative. This will provide debt relief of approximately \$960 million over a period of fifteen years. This savings from debt forgiveness will be used for improvements in education, health care, and other aspects of the Poverty Reduction program.

4. (U) Following the signing of the Letter of Intent, several multilateral and bilateral assistance packages were announced which will be worth \$110 million over the next several years. On February 10, the government of Sweden announced \$31 million of assistance to be given to the GOH this year, for support of the Poverty Reduction Strategy. On February 11, the Inter-American Development Bank (IDB) announced approval of \$55 million in soft loans: \$30 million to support Honduras' Poverty Reduction Strategy, and \$25 million for a program to support the stability of Honduras' banking sector. The loans are for a 40-year period, with a 10-year grace period, and an annual interest rate of 1 percent for the first decade and 2 percent thereafter. In addition, on February 26, the World Bank approved a \$25 million credit for a Land Administration Program to help expand access to formal land titling and registration. The credit is repayable over 40 years, with a 10-year grace period, at zero interest.

But Rising Fuel Costs Could Spark Discontent

15. (SBU) On February 29, fuel prices in Honduras rose for the third time this year, by more than three lempiras (16.7 cents) a gallon. As of the end of the month, the price of gasoline had increased by 19 percent, and that of diesel fuel by 17.6 percent, from December 31 of last year. The price increases are largely due to the increase in the tariff on fuel, which the GOH applied at the end of 2003 to raise revenue and reach agreement with the IMF. At the same time, the rising world price of oil, which was at a one-year high by the end of February, has put further pressure on gasoline prices, much to the dismay of Honduran officials who had hoped for falling prices to cushion the blow. Taxi, bus, and truck drivers have all been clamoring for relief, and the private sector is urging the legislature to cap fuel prices. So far, the government has remained firm in its intention to abide by the terms of the IMF program targets and avoid further price controls. (See Ref B for a full account of this issue.)

Minimum Wage Negotiations Underway

16. (U) The Tripartite Commission on the minimum wage (with representatives of labor, business and the government) met twice during February to discuss the annual increase to the minimum wage. Negotiations began with the two sides far apart, each accusing the other of making unreasonable offers. The private sector organization COHEP (Honduran Private Enterprise Council) offered an increase of 7 percent (keeping up with inflation). Israel Salinas, secretary general of the United Confederation of Honduran Workers (CUTH), called for an increase of 30 percent, and said that there seems to be no general agreement between labor and the private sector on the issue. In 2003, the government approved a 12 percent increase in the minimum wage after business/labor negotiations stalled.

Aviation Security and Safety: A New National Plan

17. (U) The Honduran Civil Aviation authorities (DGAC) have produced a new National Plan for Aviation Safety and Security, which entered into force by means of a Presidential decree published on February 20. The existing plan was badly out of date and in many ways obsolete, for example, tasking "the airport police" with certain airport security functions, when in fact no such group has existed since the police forces were re-organized in 1999. The new plan was written by an IDB-funded consultant and should bring Honduras into compliance with ICAO standards on safety and security.

Work Begins to Make Room for Runway Extension

18. (U) Also in February, the first stage of construction began on what will eventually be an extension to the runway at Toncontin International Airport in Tegucigalpa. Construction began to divert a major road which runs along the southern edge of the airport grounds. Shifting the road will allow the airport to extend its runway to the south by an additional 300 meters, bringing the total length of the runway to 2,162 meters. The road construction is being handled and paid for by the Ministry of Transportation and is expected to be completed by the end of March. Once the road has been rerouted, InterAirports, the international consortium that manages Honduras' four international airports, can begin work on the runway extension.

But Progress Stalls on Roatan Fence

19. (U) At the airport on the island of Roatan, however, the construction of an internal fence to protect the runway area came to an abrupt halt when an angry resident began threatening the workers with a gun. As explained in Ref C, the fence is necessary due to the presence of fourteen families who actually live on the airport grounds and are currently prevented from walking onto the runway only by the presence of 24-hour guards, not by any physical structure. These families believe that they are owed compensation by the GOH and had long opposed the construction of the internal fence. However, officials from InterAirports, the DGAC, and the local government secured written permission from the majority of the families in December 2003 and construction began. Unfortunately, one resident who did not sign remains violently opposed to the fence, and has successfully brought its construction to a standstill with only 180 meters left to build. Aviation officials are again planning to go to Roatan to work with local authorities to resolve the matter.

Governor Bush's Visit Postponed

110. (SBU) Florida Governor Jeb Bush was forced to call off a planned visit to Honduras on February 19 when bad weather and malfunctioning equipment at the airport in Tegucigalpa threatened his landing. Governor Bush was leading a delegation of Florida business leaders on a week-long visit through Central America, to promote regional trade and to generate support for Miami's bid to host the FTAA Secretariat. However, bad weather and poor visibility at

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Toncontin Airport, coupled with the fact that the distance-measuring equipment (DME) transponder at the airport was temporarily out of order, forced the group to postpone the visit. The Governor's office hopes to reschedule the visit for sometime in March.

IDB Recommends Elimination of Tax Exemptions

111. (U) On February 10, two tax specialists from the IDB presented the results of a study they had conducted on the Honduran tax system. The study emphasized the need to establish a more equitable tax system, since under the current system, according to the specialists, "the people who earn the most are paying the least." The study advocates neither higher tax rates nor the creation of new taxes, but rather the broadening of the tax base through the elimination of tax exemptions in industrial "free zones," as well as more effective tax collection. An improved tax system is especially important at this time, according to the authors, because of the expectation of lost tariff revenue which will result from the implementation of CAFTA and the FTAA.

112. (SBU) Not surprisingly, the private sector responded negatively to the suggestion that the rules governing free zones should be changed, claiming that a revision of the benefits currently offered to industries operating in these zones would undermine the growth of the maquila sector, the strongest source of employment growth in the Honduran economy in recent years. The Vice Minister of Finance, William Chong Wong, gave his assurance that tax exemptions currently enjoyed by the maquila industry will not be touched during the present government, as these benefits were granted in accordance with the law. However, he did acknowledge that such exemptions might be eliminated "in the long term."

Under-Secretary of Commerce Aldonas Visits San Pedro Sula

113. (U) On February 4 - 5, Commerce Under-Secretary Grant Aldonas visited the northern city of San Pedro Sula with other Commerce Department officials. The visit focused on the maquila industry, its relation to the textile and apparel industry in the United States, and the prospects for approval of CAFTA by the U.S. Congress. Under-Secretary Aldonas also visited the MHOTIVO foundation, a school for poor children which was founded and is financed by Honduran businesses, particularly in the maquila sector.

Moon Rock Returns to Honduras

114. (U) The Administrator of NASA, Sean O'Keefe, visited Honduras and attended a ceremony at which a moon rock stolen from Honduras during the 1990s was officially returned to Honduras. The rock, collected in 1972 by the crew of Apollo 17, was originally given to the Honduran people by President Richard Nixon, but a Honduran official later sold the rock to a U.S. citizen. It was recovered by U.S. federal agents in a sting operation in 1998, but a legal dispute delayed its return to Honduran officials until late 2003.

115. (U) During the visit, NASA representatives also visited the NASA-supported astronomy department and observatory of the National University (UNAH), where O'Keefe spoke about the history and the future of the U.S. space program. The moon rock will remain on display in the Chiminike Interactive Center, a recently-inaugurated children's museum in Tegucigalpa.

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